United States Travel and Tourism Administration, partially in 1988 and fully in 1989 and beyond.

CBO Reestimates

Spending by the financial insurance funds--the FSLIC and the Federal Deposit Insurance Corporation (FDIC)--is very uncertain because of the precarious condition of many of their member institutions. CBO estimates that outlays for these two funds will be $1.8 billion less than the budget figures for 1987, but $1 billion to $2 billion higher in each of the years 1988 through 1990, because of differing expectations as to the cost and timing of actions involving the failure of banks and savings and loan institutions. Unlike the Administration, CBO expects that the proposed recapitalization of the FSLIC will have no significant net outlay effect over time, because offsetting collections from the financing corporation would be offset by disbursements for assisting troubled institutions.

CBO's estimates of Postal Service outlays are lower than the Administration's, especially in the 1989-1992 period, for several reasons: the Administration's figures do not incorporate postal rate increases to finance its proposals to increase Postal Service contributions to the retirement and health benefits funds; CBO estimates a slower rate of disbursement for capital investments; and the Administration's figures do not reflect the large year-to-year swings in net operating income that result from periodic rate increases. Over the 1988-1992 period, CBO's estimates of Postal Service outlays are about $6 billion below the Administration's.

The 1988 budget indicates that legislation will be proposed to prohibit the Postal Service from borrowing for capital purposes from the Federal Financing Bank (FFB). Because the Administration's budget estimates do not reflect the termination of this borrowing authority, however, CBO assumes that the Postal Service will continue to finance its capital program -- over $9.2 billion in the next five years--through the FFB.

CBO's outlay estimates for the Rural Housing Insurance Fund exceed those of the Administration by about $0.7 billion for 1988 and by a total of $1.4 billion for the 1988-1992 period. Most of these differences are attributable to the assumption by CBO that the FmHA will be required to pay an interest penalty when debt securities held by the FFB are redeemed early. These securities were sold to the FFB in prior years to help finance rural housing loans for low-income borrowers. The penalty payments would appear as outlays in function 370 but would be entirely offset by receipts in function 900.

Credit Programs

Consistent with the President's proposal to terminate or curtail a number of commerce and housing programs, direct and guaranteed loans would be reduced relative to the CBO baseline by about $14.6 billion and $173.2 billion, respectively, over the 1988-1992 period. Direct lending for small businesses, housing for the elderly and handicapped, and rural housing would be virtually eliminated. Changes in FHA's eligibility requirements and guarantee fees are estimated to reduce guaranteed loan commitments by about $171 billion over the five-year period.

MAJOR CREDIT PROGRAM CHANGES PROPOSED FOR FUNCTION 370: COMMERCE AND HOUSING CREDIT (By fiscal year, in billions of dollars)

Item	1988	1989	1990	1991	1992	Cumulative Five-Year Changes
			Direct Loan Obligations			
CBO Baseline	4.1	4.4	4.5	4.7	4.9	
Proposed Changes						
Rural Housing Insurance Fund	-2.1	-2.2	-2.3	-2.4	-2.5	-11.6
Housing for elderly or handicapped	-0.5	-0.6	-0.7	-0.7	-0.7	-3.2
SBA business loans	-0.1	-0.1	-0.1	-0.1	-0.2	-0.7
Government National Mortgage Association	0.3	0.2	0.1	0.3	0.1	1.0
Other	a/	a/	a/	a/	a/	a/
Total	-2.4	-2.8	-3.0	-3.0	-3.4	-14.6
President's 1988 Budget as Estimated by CBO	1.7	1.6	1.5	1.7	1.5	
			Guaranteed Loan Commitments			
CBO Baseline	91.8	94.1	99.2	103.9	107.1	
Proposed Changes						
Federal Housing Administration	-24.7	-33.2	-36.0	-38.0	-39.2	-171.1
SBA business loans	-0.1	-0.2	-0.4	-0.5	-0.7	-1.9
Other	a/	a/	a/	a/	a/	-0.1
Total	-24.9	-33.4	-36.5	-38.5	-39.9	-173.2
President's 1988 Budget as Estimated by CBO	66.9	60.7	62.7	65.3	67.3	

a. Less than $50 million.

FUNCTION 400: TRANSPORTATION

MAJOR SPENDING CHANGES PROPOSED FOR BUDGET FUNCTION 400: TRANSPORTATION (By fiscal year, outlays in billions of dollars)

Item	1988	1989	1990	1991	1992	Cumulative Five-Year Changes
CBO Baseline	28.8	29.4	30.1	30.9	31.6	
Proposed Changes						
Mass transit	-0.6	-1.3	-1.5	-2.0	-2.2	-7.4
Federal-aid Highways	-0.2	-0.7	-1.2	-1.5	-1.5	-5.1
Amtrak	-0.6	-0.6	-0.6	-0.7	-0.7	-3.3
Coast Guard user fees	-0.4	-0.5	-0.5	-0.5	-0.5	-2.3
Federal Ship Financing Fund	-0.1	-0.1	-0.1	-0.1	-0.1	-0.7
FAA operations, facilities, and equipment	0.3	0.4	0.4	0.4	0.4	1.9
Other	-0.2	-0.2	-0.6	-0.4	-0.5	-1.9
Total	-1.7	-3.0	-4.0	-4.8	-5.1	-18.7
President's 1988 Budget as Estimated by CBO	27.0	26.4	26.1	26.1	26.5	
President's 1988 Budget	25.5	26.7	26.4	25.8	26.2	
CBO Reestimates	1.5	-0.3	-0.3	0.3	0.3	1.4

Proposed Policy Changes

The Administration's proposal would reduce transportation spending below the CBO baseline in all years, with total savings of $18.7 billion over the 1988-1992 period. The budget includes a 16 percent cut ($4.8 billion) from the baseline in 1988 budget authority, with first-year outlay savings of $1.7 billion.

Ground Transportation. Reductions in spending for ground transportation, particularly mass transit, would account for most of the outlay savings in this function. The Administration proposes to limit budget authority and obligations for transit programs to \$1.5 billion annually, compared with 1987 funding of \$3.5 billion. All but \$130 million (for the Washington, D.C., transit system) would be financed from the Highway Trust Fund by the 1 cent of the 9-cent-per-gallon gasoline tax that is currently earmarked for mass transit. The President is proposing to allocate grant funds to states and localities entirely by formula, providing capital assistance to all areas and operating assistance to small cities and rural areas only. Recipients would be required to make matching contributions of at least 50 percent. The Administration would also fund administration, planning, and research from the trust fund. Outlay savings in transit programs would total \$7.4 billion over the 1988-1992 period.

The budget also includes reductions in the Federal-aid Highways program, reflecting the Administration's proposal to reauthorize highway programs that expired at the end of fiscal year 1986. The Administration would replace separate funding for interstate construction, interstate repair, and primary highways construction with a combined program funded at \$8.2 billion annually. States would have discretion in allocating funds among the eligible uses. The budget would limit total annual budget authority and obligations from the highway account of the Highway Trust Fund to estimated average annual tax receipts into that account. Under this proposal, total budget authority for Federal-aid Highways would be only \$13.4 billion per year in fiscal years 1987 through 1990, \$14.4 billion in 1991, and \$14.7 billion in 1992, compared with \$14.6 billion in 1986. Obligations would be about the same as the proposed budget authority over this period, but would be much lower than the baseline obligation levels, which would reach \$16.6 billion by 1992. Resulting outlay savings would be \$5.1 billion over the 1988-1992 period.

As in previous years, the Administration proposes to eliminate all subsidies for Amtrak, reducing outlays over the five years by \$3.3 billion. Elimination of these subsidies, together with the proposed sale of all or part of Amtrak's assets, could lead to a substantial reduction in intercity rail passenger service and the end of Amtrak in its current form.

Water Transportation. As in previous years, the 1988 budget includes a proposal to impose new user fees for various services performed by the Coast Guard. The new fees would result in net outlay reductions of \$2.3 billion over the 1988-1992 period. Total proposed funding for the Coast Guard is close to the baseline over this period.

The President is requesting a fiscal year 1987 supplemental appropriation to cover the repayment of principal and interest from the Federal Ship Financing Fund to the general fund. This is an intragovernmental transaction that has no overall budgetary impact. It results in lower outlays in function 400--savings of $0.7 billion over five years--which would be exactly offset by lower receipts and increased outlays in function 900.

Air Transportation. The only area of transportation targeted for significant funding increases is aviation. The President proposes a major increase in spending for aviation programs in 1988, and would increase spending at close to the baseline rate of growth in subsequent years. Most of the increase in 1988 would be to modernize and improve the air traffic control system. Under the President's budget, spending authority for Federal Aviation Administration (FAA) facilities and equipment would be increased from $805 million in 1987 to $1.35 billion in 1988, and would average $1.4 billion a year over the 1989-1992 period. Spending for FAA operations would be above baseline levels between 1988 and 1990 before leveling off in 1991. The additional funds would be used to hire more air traffic controllers, safety inspectors, and aviation security personnel. The Administration proposes to derive approximately 75 percent of the funds for FAA operations from the Airport and Airway Trust Fund, compared with just under 25 percent in 1987.

CBO Reestimates

CBO estimates that spending under the Administration's policies would be $1.4 billion higher over the five-year period than estimated in the budget. Largely because CBO assumes that action on a highway reauthorization bill will be completed sooner than anticipated by the Administration, CBO's estimate of outlays for Federal-aid Highways in fiscal year 1988 is $1.0 billion higher than the Administration's. Other changes result from different spending rates, especially for mass transit programs.

The President's budget includes a proposal to sell all or part of the assets of Amtrak, with estimated receipts to the government of $1 billion. CBO is unable to estimate the effect of this proposal, because it is not yet clearly defined. Because of the complexity involved in disposing of Amtrak's assets, it may be difficult or impossible to obtain the receipts in fiscal year 1988. Furthermore, it is unclear how the federal government could generate substantial receipts from the disposal of assets while maintaining Amtrak operations, or whether such operations would be continued at all. Also, there is no apparent ready buyer for Amtrak's assets. Therefore, no savings are included in CBO's estimates. The Administration has included these receipts in function 950.

FUNCTION 450: COMMUNITY AND REGIONAL DEVELOPMENT

MAJOR SPENDING CHANGES PROPOSED FOR BUDGET FUNCTION 450: COMMUNITY AND REGIONAL DEVELOPMENT
(By fiscal year, outlays in billions of dollars)

Item	1988	1989	1990	1991	1992	Cumulative Five-Year Changes
CBO Baseline	6.6	6.7	7.1	7.2	7.5	
Proposed Changes						
Community Development Block Grants	-0.2	-0.4	-0.6	-0.7	-0.8	-2.6
Urban Development Action Grants	-0.1	-0.1	-0.2	-0.2	-0.2	-0.9
Other community development programs	-0.3	-0.3	-0.3	-0.3	-0.3	-1.6
Rural Development Insurance Fund	-0.1	-0.3	-0.8	-0.8	-0.6	-2.6
Other regional development programs	-0.5	-0.7	-0.7	-0.6	-0.6	-3.1
Disaster programs	-0.2	-0.2	-0.1	-0.1	a/	-0.6
Total	-1.4	-2.0	-2.7	-2.6	-2.6	-11.4
President's 1988 Budget as Estimated by CBO	5.2	4.7	4.4	4.6	4.8	
President's 1988 Budget	5.5	4.4	4.0	4.2	4.2	
CBO Reestimates	-0.3	0.3	0.4	0.4	0.6	1.4

a. Less than $50 million.

Proposed Policy Changes

As in previous budgets, the 1988 budget proposes major reductions in spending on community and regional development. Many of the programs within this function would be eliminated, while others are slated for large reductions. Total savings relative to the CBO baseline are estimated to be $11.4 billion over the 1988-1992 period, a reduction of about 32 percent in spending in this function. The President's proposals are based on the view that many of the benefits of these programs are local in nature, and that the costs therefore should be borne locally.

Community Development. About $5.1 billion of the five-year savings relative to the CBO baseline is in community development programs, which are aimed at urban areas. The budget includes reduced funding for Community Development Block Grants (CDBGs), beginning in fiscal year 1987 with a rescission of $375 million. (The 1987 appropriation is currently $3.0 billion; the program would continue at an annual level of $2.6 billion.) In addition, the President would terminate the Urban Development Action Grant (UDAG) program, beginning with a $238 million rescission of fiscal year 1987 budget authority and unobligated balances. Five-year savings would total $2.6 billion for the CDBG program and $0.9 billion for UDAGs, relative to the CBO baseline.

Rental Housing Development Grants (HoDAGs) would be terminated in 1988, following a rescission of the total 1987 appropriation of about $100 million and $10 million of recaptured funds. The Administration is also proposing to rescind $125 million of the $200 million appropriated for 1987 for rental rehabilitation grants, with the program continuing at an annual level of $75 million in 1988 and beyond. Other programs that would be terminated in 1988 are CDBG Section 108 guaranteed loans and Section 312 rehabilitation loans.

The President's budget also proposes the sale of various community development loans. The complete portfolio of the Section 312 rehabilitation loan program would be sold over two years, beginning in fiscal year 1988. The complete portfolio of public facility loans currently held by the Department of Housing and Urban Development would be sold over three years, beginning in fiscal year 1987. Receipts from loan sales are estimated to total $0.4 billion over the 1988-1992 period.

Area and Regional Development. The President's budget proposals for area and regional development programs, which are largely aimed at rural areas, would result in savings of $5.8 billion relative to the CBO baseline--a decrease from baseline levels of about 42 percent over the 1988-1992 period. The Administration is proposing to eliminate future direct loan and loan guarantee activity of the Rural Development Insurance Fund (RDIF), and to rescind $319 million of fiscal year 1987 direct loan authority. (The RDIF currently provides loans for water and waste disposal and other community facilities, and loan guarantees for business and industrial development.) Appropriations for 1987 currently provide for $426 million in direct loans and $114 million in guarantees. Outlay savings over five years would total $2.6 billion.

Other major programs that the Administration would terminate in fiscal year 1988 are rural water and waste disposal grants, economic development assistance grants, and Appalachian regional development grants, with fiscal year 1987 rescissions of about $80 million, $124 million, and $31 million, respectively. Lending activities of the Rural Telephone Bank (RTB) would be phased out by fiscal year 1990; beginning in fiscal year 1988, the federal government would no longer purchase RTB capital stock. Spending reductions are proposed for the Tennessee Valley Authority programs not related to power, the Bureau of Indian Affairs' construction program, and many smaller programs.

The President is also proposing the sale of RDIF and RTB loan assets. In each year from 1990 through 1992, $1 billion in principal value of RDIF loans would be sold. (These sales would be in addition to those mandated by the Omnibus Budget Reconciliation Act of 1986.) For the RTB, $500 million in principal value of loans would be sold in 1988 and in 1989, with an additional $250 million for sale in 1990. CBO estimates that receipts from these sales would total $2.1 billion over the 1988-1992 period.

Disaster Assistance. The President's proposals for disaster assistance would result in savings of $0.6 billion relative to the CBO baseline during the 1988-1992 period. The major proposal in this category is the sale of the disaster loan portfolio of the Small Business Administration (SBA) over six years, beginning in fiscal year 1987. The President is also proposing to raise the interest rate on disaster loans to the Treasury rate plus 1 percent, and to limit SBA disaster loans in fiscal year 1989 and beyond to those persons unable to obtain credit elsewhere. Finally, the budget contains an increase of 17 percent in flood insurance premiums in 1987, intended to make the program actuarially sound.

CBO Reestimates

The difference of roughly $300 million in fiscal year 1988 is largely attributable to differences in spending rates for the CDBG program and in estimated receipts from the sale of rehabilitation loans. The differences in fiscal years 1989 through 1992 primarily result from different estimates of receipts from RDIF loan sales and CBO's inclusion of prepayment penalties from RDIF to the Federal Financing Bank (FFB) for the early redemption of certificates of beneficial ownership. (While required under the agency's contracts with the FFB, such prepayment penalties were not included in the budget. They have no net effect on budget outlays, however, because they are precisely offset by receipts in function 900.)

Credit Programs

The CBO baseline projects direct loan obligations of about $1.2 billion in 1992, largely for SBA disaster loans and RDIF rural development loans. As shown in the following table, the President is proposing to end most lending activity in this function. By 1992, under the President's proposals, direct loan obligations would be reduced to $0.4 billion, largely for SBA disaster loans.

MAJOR CREDIT PROGRAM CHANGES PROPOSED FOR FUNCTION 450: COMMUNITY AND REGIONAL DEVELOPMENT
(By fiscal year, in billions of dollars)

Item	1988	1989	1990	1991	1992	Cumulative Five-Year Changes
			Direct Loan Obligations			
CBO Baseline	1.1	1.1	1.1	1.2	1.2	
Proposed Changes						
Rehabilitation Loans	-0.1	-0.1	-0.1	-0.1	-0.1	-0.4
Rural Development Insurance Fund	-0.4	-0.5	-0.5	-0.5	-0.5	-2.4
Rural Telephone Bank	-0.1	-0.1	-0.2	-0.2	-0.2	-0.7
Small Business Administration (Disaster Loans)	0	a/	a/	a/	-0.1	-0.2
Other	a/	a/	a/	a/	a/	a/
Total	-0.6	-0.7	-0.8	-0.8	-0.8	-3.7
President's 1988 Budget as Estimated by CBO	0.5	0.4	0.4	0.4	0.4	

a. Less than $50 million.

FUNCTION 500: EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES

MAJOR SPENDING CHANGES PROPOSED FOR BUDGET FUNCTION 500: EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES
(By fiscal year, outlays in billions of dollars)

Item	1988	1989	1990	1991	1992	Cumulative Five-Year Changes
CBO Baseline	32.6	34.7	36.4	37.8	39.1	
Proposed Changes						
Elementary and secondary education	-0.9	-2.0	-2.2	-2.7	-3.3	-11.1
Higher Education						
Student aid	-1.5	-2.2	-3.1	-3.4	-3.7	-13.9
Guaranteed Student Loans	-0.8	-1.0	-1.4	-1.6	-1.7	-6.6
College housing asset sales	-0.4	-0.1	-0.1	-0.1	-0.1	-0.7
Other	-0.1	-0.3	-0.3	-0.4	-0.4	-1.6
Arts and humanities	-0.1	-0.2	-0.3	-0.4	-0.5	-1.4
Training and employment	0.1	0.5	0.1	-0.2	-0.5	-0.1
Social services	-0.5	-0.7	-0.9	-1.2	-1.5	-4.9
Total	-4.1	-5.9	-8.4	-10.0	-11.7	-40.2
President's 1988 Budget as Estimated by CBO	28.5	28.7	28.0	27.8	27.4	
President's 1988 Budget	28.4	28.9	28.0	27.5	26.5	
CBO Reestimates	0.0	-0.1	0.0	0.3	0.9	1.0

Proposed Policy Changes

Under the policies set forth in the President's 1988 budget for education, job training, employment, and social service programs, federal spending would decline by $4.1 billion in 1988 from CBO's baseline projection of $32.6 billion. By 1992, spending in function 500 would be reduced by $11.7 billion, or approximately 30 percent. As in previous budgets, the President proposes major reductions in federal education programs, and smaller reductions in job training, employment, and social services programs. The President also proposes $2.8 billion in 1987 rescissions. The 1988 budget includes new proposals for elementary and secondary education, higher education, youth employment, and worker assistance programs.

Elementary and Secondary Education. Over the next five years, the President's budget would reduce spending for elementary and secondary education by $11 billion, or 23 percent, below the CBO baseline. The Administration proposes to limit any federal role in elementary and secondary education to programs specifically targeted toward poor and disadvantaged children. To this end, the 1988 budget would eliminate many programs, while substantially reducing or freezing others.

The President proposes to eliminate the vocational education program, where half of the funds are not specifically targeted toward the disadvantaged. Savings below baseline would equal $4.2 billion from 1988 through 1992. Similarly, the budget would eliminate funding for Impact Aid "b", math and science programs, regional desegregation assistance centers, immigrant education, and many other smaller categorical programs. In addition, the President's budget would reduce spending substantially for drug-free schools by approximately $650 million over the projection period. Funding for Chapter 2 block grants, Impact Aid "a" payments, Indian education programs, and bilingual education would be frozen at 1987 levels.

The President proposes to reduce funding for all education programs for handicapped children. Funding for the newly created program for handicapped infants would be eliminated. Savings below baseline would total $1.9 billion from 1988 through 1992.

The President has requested $4.1 billion for compensatory education in 1988, approximately the CBO baseline level. Funding would be held at this level in the out-years. The President is requesting legislation to give local school districts the option to use compensatory education certificates to provide services. These certificates would give the parents of disadvantaged children some flexibility in choosing compensatory services. Currently, these children receive services at their assigned school.

Only in two small education programs is funding requested above baseline levels. The President's request of $130 million for adult education represents an 18 percent increase over 1987. Requested funding would increase to $200 million by 1992. The President also requests $80 million of new funding in 1988 for teacher training grants to improve subject competence and teaching skills.

The Administration's elementary and secondary education request includes 1987 rescissions totaling $842 million. Spending would be reduced 10 percent below the CBO baseline in 1988, and 30 percent by 1992.

Higher Education. The President proposes major reforms to limit sharply the federal role in higher eduction. These proposals are a significant change from the policy directions contained in the Higher Education Admendments of 1986, a sweeping overhaul of all federal higher education programs. The newly enacted law increases basic grants to disadvantaged students, maintains most other grant and work aid programs in their current form, and substantially alters the Guaranteed Student Loan (GSL) program by tightening eligibility requirements, reducing lender yields, requiring fees for guarantors, installing stricter policies to pursue defaulters, and increasing borrowing limits.

Under the Administration's 1988 budget proposals, most aid to students and to colleges would be reduced substantially or eliminated. Remaining student aid would primarily consist of loans rather than grants and jobs. Loans would become more expensive and harder to find. Specifically, the President proposes to:

- Cut Pell grant funding by 33 percent below the 1988 baseline estimate of $4 billion. The proposal would remove approximately 1 million students from the program, primarily by tightening income eligibility requirements and increasing expected family contributions.

- Eliminate funding for supplemental grants, state student incentive grants, and work-study programs totaling $1.1 billion in 1988. Over 800,000 students, many the most needy, would no longer receive grant and job aid.

- Replace Perkins loans (formerly National Direct Student Loans) with an unsubsidized income-contingent loan program increasing total capital availability by $400 million. This increase in funding could either provide loans for new recipients or could permit increases in loans for current borrowers. Many current borrowers would require additional loan funds to compensate for reductions in grant aid.

- Eliminate most GSL interest subsidies, reduce annual borrowing limits, decrease lender yields, increase lender risks, and establish insurance premiums for students. The Administration would expand eligibility and borrowing limits in the supplemental loan program. CBO estimates that the net impact of these changes would reduce loan availability (discussed below under credit programs).

- Eliminate or reduce funding by $330 million in 1988 for most fellowship programs and other college aid such as the Jacob Javits, Patricia Harris, and Christa McAuliffe fellowships; the Upward Bound program; talent search; foreign language studies; and support for developing and historically black colleges.

These changes in higher education would begin in 1987 with proposed rescissions totaling $1.5 billion. As a result, federal spending for higher education programs would decline by approximately $2.4 billion in 1988 and $5.9 billion in 1992, a 60 percent reduction from CBO's baseline.

The President also proposes to sell more college housing and facilities loans in 1988 than are necessary to achieve the proceeds target under current law. Under the Higher Education Amendments of 1986, the Department of Education is directed to sell enough loan assets back to borrowers and to private investors to achieve sale proceeds of $314 million in 1988. The President would sell more of the portfolio, returning an estimated $675 million in proceeds in 1988.

Arts and Humanities. Arts and humanities programs, which currently account for federal spending of $1.4 billion, would be reduced below CBO's baseline by approximately 4 percent in 1988 and almost 28 percent in 1992. The proposed reductions include the elimination of funding for libraries and public telecommunications, a sharp decline in support for public broadcasting, and cutbacks in the federal endowments for the arts and humanities.

Training and Employment. The President's budget proposes to increase funding in 1988 for employment and training to finance new initiatives for dislocated workers and disadvantaged youth, but this increase is offset in later years by freezing or reducing funding levels for current programs.

In 1987, the Administration requests a $332 million rescission in employment and training funds. The rescission would reduce grants to states and would cut back the current dislocated worker and Summer Youth programs until new initiatives are in place. The activities of the Work

Incentive (WIN) program would be funded in the Administration's proposed new work/welfare program for recipients of Aid to Families with Dependent Children (AFDC) in the income security function (function 600).

The President's budget proposes two new initiatives to help dislocated workers--those who have worked for several years and whose jobs have been eliminated--and disadvantaged youth. The new Worker Adjustment Assistance Program would replace the trade adjustment assistance cash benefits and training programs with a single discretionary program focusing on counseling, job search, literacy, and skill training. The program would emphasize adjustment to new jobs and new careers. Budget authority of $980 million--$606 million more than the CBO baseline estimate for the existing programs--is requested in 1988. The second major legislative proposal would replace the Summer Youth program with a program allowing localities areas to choose a mix of services that best meet their needs. The states could choose to establish a more intensive year-round program for teenagers in AFDC families, to continue the existing subsidized summer jobs program for economically disadvantaged youth, or both.

Social Services. The President proposes to reduce current spending of $7.7 billion for social service programs by 7 percent in 1988 and 16 percent in 1992. In 1987, $127 million in vocational rehabilitation services would be rescinded. These cuts are in line with those proposed by the President in recent years.

The reductions reflect a number of program changes. The President proposes to consolidate 26 social services programs such as Head Start and meals for older Americans, reducing their total spending by 11 percent in 1988 and 23 percent in 1992. The Community Services Block Grant would be phased out by 1992. In the foster care and adoption assistance programs, payments to states for administrative and training costs would be limited to 50 percent of benefit payments, and the new independent living program would be eliminated. The President would also reduce funding for vocational rehabilitation grants.

CBO Reestimates

The CBO reestimates of the President's budget occur mainly in the GSL program. CBO projects higher interest rates than the Administration and thus higher interest subsidies in the GSL program. The economic differences are particularly significant in 1991 and 1992, when the CBO interest rate projections exceed the Administration's by over one percentage point. Of the $0.9 billion CBO reestimate in 1992, $0.6 billion results from the higher interest rates assumed by CBO. An additional $0.2 billion reestimate in 1992 relates to spending projections of the Immigration Reform Act of 1986. These projections, however, are highly uncertain.

Credit Programs

Direct Loan Obligations. The President proposes to reduce direct loan obligations in function 500 by $1 billion over the next five years. In the GSL program, federal payments for default claims are considered direct loans of the federal government. These default claims are projected to total $6.8 billion over the next five years. The President's proposed reform of the GSL program would lower federal default payments by $655 million over five years by reducing maximum federal insurance coverage from 100 percent to 80 percent and by reducing borrowing and hence future liabilities. Net federal defaults after collections of insurance premiums and default repayments, not reflected in these gross totals, would be reduced by $3.3 billion over the time period by charging students a 9 percent insurance premium on regular loans and 2 percent on supplemental loans.

The President has also proposed to rescind the 1987 loan obligation authority of $60 million for the college housing program and to terminate the authority in the out-years. In addition, the President proposes in 1988 to sell more of the existing loans.

As part of its student aid reform package, the Administration has expanded the current income-contingent loan program with reduced subsidies to replace the Perkins loan program (formerly the National Direct Student Loan program). This proposed program would allow students to borrow their interest payments while in school and then would allow repayments to vary with earnings after school. In 1988, the President proposes to make a $600 million federal contribution to this program, a $400 million increase over the CBO baseline level.

Guaranteed Loan Commitments. Under the GSL program, the federal government fully guarantees private loans (estimated at $8.4 billion in 1988) for eligible students at highly subsidized and variable interest rates and also guarantees loans under the much smaller (estimated at $600 million in 1988) and less subsidized supplemental loan program. The Administration's proposed GSL reforms are aimed at eliminating all federal costs and liabilities associated with these programs. The Administration would shift all interest and default costs to students, lenders, and state guarantee agencies; reduce overall interest on regular guaranteed loans by 50 basis points; and lower regular program borrowing limits.

Guaranteed loan volume would decline by an estimated $1.8 billion in 1988 and an estimated $1.5 billion in 1992. The reductions would result primarily from lower borrowing limits and lower lender participation in the regular loan program. Reaction of private lenders to the proposed changes is uncertain. The combination of lower yields and higher risks, however, would force some small and medium-size lenders out of the program. Those lenders that remain would become more selective in choosing borrowers. CBO estimates that approximately 20 percent of 3.1 million eligible students would not receive loans under the President's reforms. For those students who receive loans, the amount of the loan available to pay for tuition, books, and fees would be reduced by 20 percent, declining from an estimated $2,650 to $2,100 for an undergraduate student in 1988. The decline reflects not only reductions in loan limits, but increases in interest payments and assessed insurance fees.

The Administration assumes that students would be able to recover their lost assistance from the supplemental loan program. CBO, however, expects only a minimal increase in supplemental loans since the expansion in private loan resources is unlikely to be large. The supplemental loan program has never been attractive to private lenders, and its current new loan volume is only about $600 million. Moreover, it has become even less attractive because the Education Amendments of 1986 reduced yields and increased administrative costs, and the President's proposals would increase lender risk.

MAJOR CREDIT PROGRAM CHANGES PROPOSED FOR FUNCTION 500: EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES
(By fiscal year, in billions of dollars)

Item	1988	1989	1990	1991	1992	Cumulative Five-Year Changes
			Direct Loan Obligations			
CBO Baseline	1.6	1.6	1.6	1.7	1.7	
Proposed Changes						
Guaranteed Student Loans	0.0	-0.1	-0.1	-0.2	-0.3	-0.7
College housing	-0.1	-0.1	-0.1	-0.1	-0.1	-0.4
Income-contingent loans	0.5	0.5	0.4	0.4	0.4	2.2
Total	0.4	0.3	0.2	0.2	0.1	1.2
President's 1988 Budget as Estimated by CBO	2.0	2.0	1.9	1.8	1.8	
			Guaranteed Loan Commitments			
CBO Baseline	9.1	9.1	9.2	9.2	9.2	
Proposed Changes						
Guaranteed Student Loans						
Regular	-2.0	-1.9	-1.8	-1.8	-1.8	-9.3
Supplemental	0.2	0.3	0.3	0.3	0.3	1.4
Total	-1.8	-1.5	-1.5	-1.5	-1.5	-7.9
President's 1988 Budget as Estimated by CBO	7.4	7.6	7.6	7.6	7.6	

FUNCTION 550: HEALTH

MAJOR SPENDING CHANGES PROPOSED FOR BUDGET FUNCTION 550: HEALTH (By fiscal year, outlays in billions of dollars)

Item	1988	1989	1990	1991	1992	Cumulative Five-Year Changes
CBO Baseline	44.1	48.1	52.1	56.2	60.6	
Proposed Changes						
Medicaid						
Cap spending a/	-1.0	-2.6	-3.9	-5.3	-6.8	-19.7
Reduce higher match rates	-0.4	-0.4	-0.5	-0.5	-0.5	-2.3
Other	0.1	0.1	0.1	0.1	0.1	0.4
Subtotal	-1.3	-3.0	-4.3	-5.7	-7.3	-21.6
Public Health Service	-1.1	-1.7	-2.1	-2.7	-3.2	-10.7
Federal Employees Health Benefits	-0.5	-0.6	-0.7	-0.8	-0.8	-3.3
Other	-0.4	-0.4	-0.4	-0.4	-0.4	-2.1
Total	-3.3	-5.6	-7.5	-9.6	-11.7	-37.8
President's 1988 Budget as Estimated by CBO	40.8	42.5	44.5	46.7	48.8	
President's 1988 Budget	38.9	40.4	42.2	43.9	45.6	
CBO Reestimates	2.0	2.1	2.4	2.7	3.2	12.3

a. These estimates assume the cap is set at $1 billion below CBO's estimates of current law spending. Savings would be greater if the cap is set at $1 billion below the Administration's estimate of current services.